



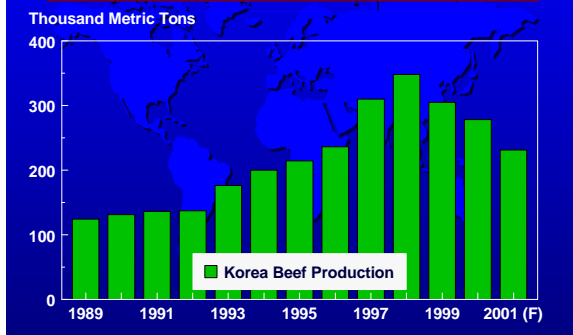
International Agricultural Trade Report

May 18, 2001

Dairy, Livestock, & Poultry Market Report: The Korean Beef Market

The Uncertain Impact of WTO Liberalization

Korea Set to Spend \$1.8 Billion on New Support Programs for Declining Domestic Beef Industry...



Korea's domestic beef industry is still reeling from the late 1990's Asian financial crisis, but is set to receive an infusion of government assistance to turn around the domestic industry's multi-year slide. The comprehensive \$1.8 billion domestic assistance package is offered as Korea grapples with the need to bring its market for beef imports into compliance with WTO guidelines. Korea's beef imports have grown despite a decade of barriers involving state trading, import quotas, a "mark-up" or additional tax on imported beef, and import tariffs approaching 100 percent, among others. In a victory for countries exporting beef to

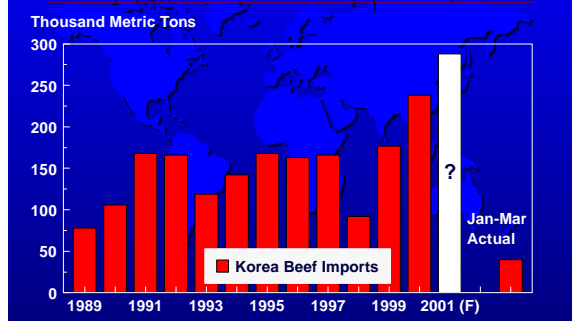
Korea, the WTO Dispute Settlement Body (DSB) on January 11, 2001, adopted the Appellate Body ruling that Korea's use of separate retail systems for imported and domestically produced beef were against WTO regulations as they did not provide consumers with equal access to imported products.

Korean press reports on the Korean Government response to the DSB ruling indicate that the Government of Korea is set to propose measures that may not be in conformity with the WTO ruling. These measures would discriminate against beef imports by requiring retailers to keep separate records and post signage indicating they were handling imported product. Korea in fact already maintains labeling laws "protecting" consumers by mandating that either the storage case or the tray pack identify the country of origin at the point of sale.

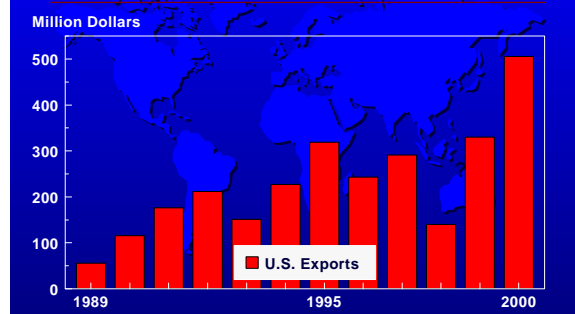
Riding the Tiger: U.S. Beef Exports to Korea Grow

Will Full Implementation of WTO Access Ruling

Obstacles to Come?

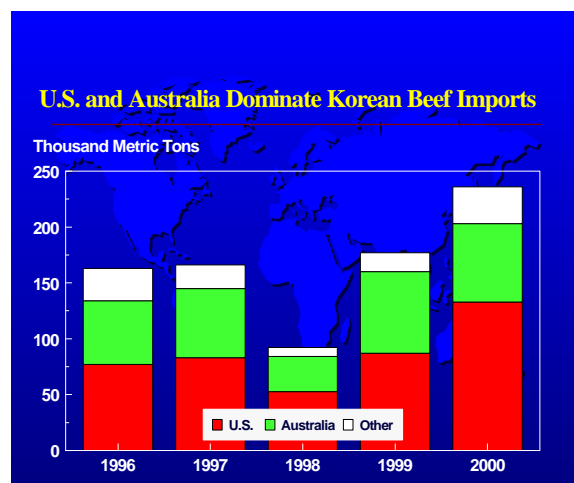


U.S. Export Success/Expansion to Our Third Largest Beef Market Depends on Effective WTO Market Access Implementation!



The Republic of South Korea is the third largest market for U.S. beef. The direction for U.S. beef exports in 2001, however, is uncertain. Korean market liberalization will open the door to greater competition, but Korean approaches to compliance may result in the exchange of one set of import controls for another.

Competition Is Strong



The United States is facing tough competition in the Korean market. The U.S. share of the Korean beef import market grew from 47 percent (77,000 tons) in 1996 to 56 percent (133,000 tons) in 2000, but Australian sales continue strong. Korean imports from Australia grew from 57,000 tons in 1996 to 70,000 in 2000. Canada, which also produces high quality beef cuts, overtook New Zealand for third place in 1998 and rose to a record 8-percent import share in 2000. Uruguay began to establish a presence in Korea in 2000, but an outbreak of Foot-and-Mouth Disease in April will limit Uruguay's ability to sell into this market.

The Wild Ride of the Korean Beef Industry

The Korean beef industry achieved astonishing growth in the first half of the decade, expanding 12.6 percent annually between 1989 and 1998. On the eve of the Asian market crisis of 1998, the Korean beef industry achieved a record 348,000 tons of output. The crisis, however, delivered a cutting blow to both cattle and beef. A record 638,000 dairy and beef cows were slaughtered that year and this in turn initiated a herd reduction from which the Korean industry has yet to recover. The calf crop, despite several recent increases in premiums for producers, failed to restore industry confidence. The calf crop for 2001 is now forecast to fall to a 13-year low of 540,000 head. Although the DSB also ruled in January that Korea's calculation of cattle support significantly underestimated the actual scale of support, the Government of Korea has taken no steps to reduce its subsidy outlays.

The Korean reliance on imports offers a completely different story. In 1990, imports provided 40 percent of Korean beef consumption. The current forecast for 2001 Korean beef imports moves Korea's import dependency to a record 60 percent. The prospect of such dependency may put the Korean Government on uncertain ground, especially as domestic producers increasingly feel the impact of foreign competition and falling prices as imported beef is currently selling for prices less than domestically produced Hanwoo beef.

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